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# Managing Change: Ideas for the Western Pacific's Strategic Future

Each year, the Kokoda Foundation invites security experts from the United States and Australia to investigate a tough, shared security challenge. The 2008 'Kokoda Dialogue' explored the issues and options for future strategy in the Western Pacific. The Dialogue considered avoiding major power confrontation in the region as the most pressing strategic goal, but also recognised the importance of dealing with a host of lesser, often non-traditional security challenges out to 2030. Existing regional security architectures were considered insufficient for these tasks, and new thinking was considered essential. Among the suggestions presented were a strategic energy conservation initiative, declaratory statements supporting the United States' regional role, a regional declaration against coercive behaviour and practical cooperation to manage change in the region.

## The Time is Right for New Thinking

The 2008 Kokoda Dialogue, held in late November, considered the key features of an optimal future allied strategy in the Western Pacific. The time was right to consider this topic. The region faces major challenges including ongoing territorial disputes, the war in Afghanistan, North Korea's behaviour and managing the rise of China and India to the front rank of regional powers. Many non-traditional security issues are also significant concerns: proliferation of weapons of mass destruction, terrorism, climate change, cyber security, pandemic disease and territorial and resource disputes retain differing degrees of salience—and will remain concerns for some time yet. Further, the global financial crisis was casting a broad shadow over the region. These challenges led many strategic policy-makers and thinkers to conclude that merely maintaining current security approaches will be insufficient to promote regional peace and prosperity into the future. There is a need for new thinking.

The Dialogue's political timing was also fortuitous. For one, reduced tension across the Taiwan Strait was considered good for the region's overall stability. Also, Prime Minister Rudd's recent suggestion for an Asia Pacific Community prompted welcome discussion about the region's future security architecture. But most critically, the Dialogue was held soon after Barack Obama's election in the United States. Many participants in the Dialogue anticipated a desire within the new American President to consider new foreign policy options.

This paper draws on discussions held during the 2008 Kokoda Dialogue to identify strategic initiatives to promote peace, sustainability and cooperation in the Western Pacific region. After briefly considering key factors about the region's present and immediate future situation, the paper identifies broad

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options for the ends, means and ways of a strategy for the Western Pacific region. The Dialogue's conclusions centred on the region's two major powers and their future, the importance of fashioning a regional architecture to cope with future challenges, and practical initiatives to enhance regional security that could begin in the 2009-10 timeframe.<sup>1</sup>

## **Key Considerations for the Region's Strategic Future**

### **REGIONAL STATES AND SECURITY**

The first set of issues revolved around challenges to regional security. These challenges were large in number and diverse in nature. Nevertheless, the future management of the US-China relationship was foremost on many minds.

While the United States is undergoing a significant political transition, nobody doubted its commitment to the region's security and prosperity. Indeed, a number of participants pointed to the United States' status as a "resident and indispensable power" in Asia, and one that sought to play a constructive role. But the United States will be under increasing challenge in all military domains out to 2030, especially in space and cyber-space. The operational task of assuring maritime access to Asia was also becoming more challenging due to regional military modernisation. Some thought a future US response to a crisis in the Western Pacific may be somewhat brittle due to its reduced presence in Japan, Korea and the Philippines, and its markedly increased reliance upon Guam. These changes were likely to occur in a context where the US defence budget would be under twin pressures of rising costs for air and naval capability, and perhaps a falling overall appropriation during tough economic times.

China was widely predicted to rise as an assertive and capable power with increasing reach, global connections, economic power, and national pride. A political shift to "intra-party democracy within a one-party state" was also observed. These are encouraging attributes under most conditions: but recent manifestations of these features have not been entirely benign. Various participants mentioned the Chinese anti-satellite test of 2007, Beijing's apparent support for aggressive cyber attacks on US information systems, the behaviour of 'Chinese students' during the Olympic Torch relay and the Chinese Government's 2007 refusal to grant permission for the USS *Kitty Hawk* to berth in Hong Kong as examples of puzzling—and provocative—Chinese behaviour. One speaker used some of these examples to ask whether the military was really making China's major strategic decisions, while another spoke of "real distrust over Chinese intentions". Recent changes to the relationship with Taiwan were also seen as encouraging and stabilising, but some participants wondered why China

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<sup>1</sup> Since the Chatham House rule applied, attributions are very rare: the primary source are presentations by, and discussions between, experts on Western Pacific security issues.

was not using these new conditions to reduce its offensive capabilities in Fuzhou and Guangzhou provinces.<sup>2</sup> Despite notes of caution, China's rise within the existing international system was seen as a positive factor that shows current Chinese ambitions are not inconsistent with regional stability.

China's future was also widely discussed. One participant described a very plausible "baseline case" for a "well-off" China with comprehensive national capability and growing national aspirations. This scenario was based on a China that changed its place in the value chain: moving forward into sophisticated research and development, and further along into financing. China also wanted to develop the capacity to compel Taiwan to reunite—although the Chinese leadership may not want to use that capability. China also wanted to protect its sea lanes of communication to ensure its future energy and resource supplies. China could also become a major source of foreign investment capital, which some consider a significant possibility given the global financial crisis. Further, China also looks toward a global political and economic role where it is "not just a rule taker, but a rule maker". In this scenario, China is likely to be a "multi-dimensional competitor that is not containable" at a minimum. At most, such strength could make China the dominant power in East Asia, replacing the United States and markedly altering the regional order.

However, a weak China is also plausible and some participants asked whether the region needed to be more concerned about that. Some pointed to the potential for China to grow weaker and possibly unstable after 2030, particularly if damage to its environment continues, or if its economy stalls and this unleashes forces that undermine the political status quo. Tough economic conditions may be caused by political decisions or global conditions, or they may come through demographic changes as China's considerable population ages dramatically after 2030. Satisfying the expectations of around 1.6 billion people in that kind of future will be a task demanding global attention.

The Korean peninsula's future was another important topic. There was unanimous concern over North Korea, and most thought this state, its leader's behaviour and its nuclear weapon potential would remain major issues for some time. The continuing inability to negotiate solutions to international concerns with North Korea's regime was most disconcerting, providing the basis for continued mistrust and strategic uncertainty.

The future trajectory of South Korea was another source of uncertainty, albeit a markedly milder concern than that about the North. Questions were asked about whether South Korea was drifting from Western alignment and becoming increasingly independent of the US alliance. The attitudes of its

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<sup>2</sup> The Chinese President suggested redeploying missiles from the provinces opposite Taiwan in late December 2008.

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military and intelligence forces were also questioned, with one participant describing these institutions as “very sympathetic to North Korea”. A final question related to whether a unified Korea would retain the North’s nuclear weapon potential.

Japan is an important nation within the Western Pacific and a vital economic and diplomatic ally for both Australia and the United States. The Japanese need to play a greater role in the region, but they remain “strategically anxious” due to their uneasy relations with China and the Koreans. The political situation in Japan, and other “wicked” factors such as North Korea’s callous abductions of ordinary citizens, makes timely and consistent work with the Japanese government difficult.

The examination of Southeast Asia focused on positive signs in the region. Indonesia’s redefinition of itself as one of the world’s largest democracies, as well as one of the world’s largest Muslim nations, was taken as a good sign for stability and progress. A number of participants noted the excellent relationship between Indonesia and Australia, and some considered the time right for a new US approach to Jakarta.

Yet no-one was oblivious to the major concerns faced by ASEAN’s members, particularly those concerning how to deal with Myanmar and instability in Thailand. Some concern was also expressed over the region’s territorial disputes, including the Indonesian-Malaysian dispute over Ambalat, continuing tension in the South China Sea, and the border dispute between Cambodia and Thailand.

While not a ‘Western Pacific’ nation, India is expected to play a larger role in the region out to 2030, although it is unlikely to be as powerful as the country it benchmarks itself against, China. While India focuses on China, it still cannot settle its differences with Pakistan due to Kashmir, ethnic violence and the issue of terrorism—matters that continue to impede India’s progress. Despite these problems, many thought India had strong incentives to work cooperatively with other powers in the Western Pacific and its inclusion in any future regional architecture was considered highly desirable.

### **THE GLOBAL FINANCIAL CRISIS**

The discussion of major regional countries and their future trajectories show how much the global economy is a driving factor and a major source of uncertainty. There was no consensus about the medium or long-term effects of the current global financial crisis, but most considered changes in regional relationships likely. In particular, it was thought that China, and perhaps India, may improve their strategic positions relative to the advanced industrial economies. A dramatically reduced US Defence budget may be one cause of such a shift. However, talk of a major US decline was considered fanciful by some and there was optimism about the United States’ ability to ‘bounce back’. The extent of strategic change was also

questioned, as the United States was considered likely to maintain a clear military dominance and its important alliance relationships despite current financial troubles.

### **REGIONAL SECURITY ARCHITECTURE**

The general consensus with regards to the region's existing regional security structures was that none are suitable for the long-term: they either do not include the right states, are not held at the right level, or they do not address a comprehensive agenda. In his address to the public dinner, Prime Minister Rudd emphasised the role and utility of the regional arrangements developed through ASEAN, and pointed to Southeast Asia's example of regional cooperation after a period of adversity. He noted the respective strengths of ASEAN's multilateral partnerships and the Asia Pacific Economic Cooperation process and how they have responded to new challenges. While Prime Minister Rudd felt these institutions are well placed to provide a core of a future regional architecture, others are not so confident in ASEAN's ability to lead a future institution. One participant said he could not see ASEAN being the "long pole in the tent" for a new regional arrangement.

This discussion continued throughout the Dialogue, with many seeing the East Asia Summit, with some modification, as being a promising way to consider the future regional architecture. But other participants highlighted challenges to the vision of a comprehensive regional architecture, including the norm of non-interference in each other's internal affairs, existing US alliance obligations, and the practical difficulties of securing the necessary agreements to create another, or a heavily modified, regional institution.

### **ENERGY AND SECURITY**

With the region set to be the dominant global consumer of energy by 2030, and with many concerns being raised about the security of supply, energy was an area of significant discussion during the Dialogue. It was argued that regional consumers are currently playing a zero-sum game with regards to energy supplies, with that competition reflecting other regional rivalries. For instance, the competition between China and India over energy investments tended to see the former win—and frustrate India enormously. The 2005 decision to block the proposed Chinese purchase of US oil company Unocal was seen by some as a missed opportunity to integrate China into an open and transparent market.

Other geopolitical factors, including 'pathological' supply conditions that artificially limit investment in oil production, were also adding to concerns about energy security: indeed, these conditions had created a 'perfect storm' in the energy market. Related concerns were raised about climate change, which was unlikely to be managed effectively unless the region's major energy consumers—China, the United States and soon, India—are bought within a global emissions reduction framework. The increasing reliance

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upon Middle Eastern oil was seen as another security concern, and a factor that would double traffic in regional sea lanes by 2030.

### **MARITIME AND MILITARY ISSUES**

The expected increase in traffic is a major concern because the region's sea lanes contain some seeds of instability. In this context, agreement over disputed issues in the South China Sea, or at least agreed management and a cooperative regime for that area, was considered important for regional stability. Another factor adding to the uncertainty around the region's sea lanes was the scale and nature of some military development programs.

The general modernisation of regional military forces—particularly in air and naval forces, but also in surveillance, nuclear and asymmetric capabilities such as cyber attack—was viewed with concern. While few thought the overall trend amounted to a competitive spiral, some developments were hard to understand within the framework of peaceful modernisation. For instance, anti-satellite capabilities were considered unnecessarily destabilising. Large Chinese investments in capabilities designed to deny United States and allied access to the region in future crises were troubling, as was support by North Korea for missile proliferation. These developments highlighted the need for greater military transparency, and ultimately less provocative capability development, in the region.

### **THE OBAMA MOMENT**

President Obama starts his term of office at a pivotal moment for the international community. He will also start with a massive domestic agenda and high, perhaps impossible, expectations upon him. The expectations have been promoted by President Obama's respect for multilateral institutions and the rule of law—which is a significant plus for the United States' ability to play an important and constructive role in maintaining regional stability out to 2030. But there is uncertainty about his attitude to Asia. Some participants raised concerns that he may be more concerned about the Middle East and Central Asia than the Western Pacific, and speculation that he may reduce defence spending to cope with domestic pressures. These concerns are especially salient because both factors—close attention and military engagement—are critical to any successful strategy for the Western Pacific.

## **Articulating a Strategy for the Western Pacific**

### **ENDS: WHAT SHOULD THE STRATEGY AIM TO ACHIEVE?**

The ultimate end of a strategy for the Western Pacific is that war or coercion should not be used by any state to achieve its objectives in the region. Articulating this end is especially important in a region where some territorial boundaries are contested and some states consider themselves divided.

However, there are other desired strategic conditions for the region, including economic development; a non-nuclear North Korea; free use of sea lanes, the cyber environment and space; disrupted terrorist networks; reduced transnational criminal activity including piracy, cybercrime, people and drugs trafficking; and a legitimate and accepted role for all Pacific powers, where military forces reinforce stability.

### **MEANS: WHAT ASSETS ARE AVAILABLE?**

The region's considerable means to achieve these strategic ends are seen in terms of the hard, sticky and soft power available to the region's states. On the 'sticky' side, the region's considerable economic dynamism, which is reinforced by significant intra-regional trade, provide a way to stress interdependency among regional states. The tradition of bilateral diplomacy was also seen as being adaptable to multilateral institutions, as the existing regional security forums and Chinese cooperation with ASEAN showed. Effective military forces were considered another important means available, and not just in terms of hard power and deterrence. Such forces also provide a means of cooperation with others, and handy tools for implementing confidence building measures.

The region's many recent examples of cooperation also provide important assets for a future strategy. Among these, cooperation on transnational crime, multinational agreements over the critical Malacca Straits, joint operations to alleviate humanitarian emergencies, and cooperation over terrorism provide strong starting points for future cooperative approaches to shared problems.

But the region also lacks some assets. In general, the diplomatic resources available in the region are probably insufficient for the many tasks that require sustained, expert attention. The lack of a comprehensive, effective, regional security cooperation mechanism, as noted above, was also considered an important gap in the means available to the collective region.

### **WAYS: POSSIBLE APPROACHES**

A number of ways were identified to bring the ends and means together. While some of these will take time to develop and marshal, others could be applied reasonably quickly, should the political will exist.

Clear, strong policy statements about the desired future strategic conditions in the Western Pacific could provide a fast way to improve communication between leaders. These statements should provide the basis for understanding each others' perspectives of the challenges, and signal preferences for the type of region governments would like to see. These statements should cover other strategic issues, including the rationales for military developments.

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Movement towards a robust, comprehensive regional cooperation forum is another way to promote long-term peace and prosperity in the Western Pacific. This forum should have an agenda that makes attendance by busy leaders worthwhile—the last thing any need is to waste time, or only gain value through ‘pull-asides’ in the meeting’s margins. An effective agenda would allow regional actors to discuss significant issues of mutual concern and open the way to better cooperation—and eventually trust.

There are many issues of mutual interest in the region, and these could provide a springboard for closer cooperation. Those in the economic sphere are being tested in the current crisis, while there may be opportunities to explore joint development schemes in disputed ocean areas. There are also more opportunities for military cooperation, particularly at the ‘security’ end of the spectrum. Counter-piracy is a field in which regional cooperation could expand, as is cooperation for humanitarian assistance and disaster response operations. Cooperation at this level may help improve the level of understanding between states, and improve channels for communication in a full-blown military crisis.

Further enhancement of the rule of law in the region would be another way of supporting long-term peace and prosperity. Finding ways of establishing respect for international rules would provide smaller states with confidence in their dealings with larger ones, and build confidence in effective redress.

## **Key Conclusions and Actions for 2009-10**

Avoiding war is the critical condition for future prosperity in the Western Pacific. No power should be planning to conduct their future relationships through coercion—and if they use force, the region (and indeed all UN members) should stand ready to oppose the aggressor. But this is not the only situation that will require collective responses in the future. The Western Pacific faces complex challenges far short of interstate war that must be managed if prosperity is to continue, and if the worst effects of transnational threats—such as climate change and terrorism—are to be avoided.

The existing regional system has generally worked well, bringing degrees of stability and prosperity to many. The existing system has also ameliorated the worst possible disputes, and contained major threats. That a sense of region has developed is another positive aspect of change over the last thirty years. But will the status quo be suitable for managing future regional challenges? If the many issues discussed during the Dialogue are a guide, then neither the United States nor Australian participants think maintaining the status quo is sustainable and most agree that change is needed.

One necessary element of change is a comprehensive, functioning strategic architecture. The architecture will be important to developing the

cooperation needed to manage the increasing number of complex challenges faced by regional states. This cooperation should be built from non-controversial areas at first, and tackle harder challenges later. This architecture should be built now to socialise the region to good habits of cooperation and frank dialogue, particularly given the uncertainties facing the region.

China's role in the region and long-term future is perhaps the greatest source of that strategic uncertainty. China has made many positive contributions to international stability over the last few years. Its rise has not only been accepted: the economic prosperity it has brought to the region has been welcomed. In security terms, its willingness to work with the ASEAN states and work with regards to North Korea is considered positive, as is the increasing frankness of high-level exchanges. Signs of reduced strain in the relationship with Taiwan are positive too. But aspects of China's behaviour cause major concerns. It is important that China modify this behaviour, so that it plays the role of a 'responsible stakeholder' and help to underpin security and stability in the Western Pacific out to 2030.

While the global financial crisis is complicating US policy options and putting significant economic pressure on the federal budget, a continued role for the United States is both likely and highly desirable. Furthermore, any attempt to deny the United States a position is likely to unsettle many regional states, leading to a future regional order marked by increased levels of suspicion and conflict.

The Dialogue identified a number of initiatives that American, Australian and other regional leaders could take in the period 2009-10:

- The first could be a strong, early statement by the incoming US president about his commitment to peace, sustainability and prosperity in the Western Pacific. This statement could cover military matters such as alliances, basing, posture and operational priorities; as well as providing a commitment to protecting sea lanes with international assistance. An early indication of President Obama's attitudes towards the region's security architecture would also be useful. This statement could offer an opportunity for other leaders to provide their own views on the region—with a Chinese statement supporting a constructive US role considered particularly welcome.
- An early visit to the region by the new US president would be another good way to signal his commitment. In addition, early visits by established leaders to Washington would provide the new president and his senior officials with a way to become aware of the many issues facing the region, and different perspectives of the challenges.

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- Assuming the next Administration sees the United States as a key player in the Western Pacific, its policy statements should be supported by strong military capability. This is certain to act as a stabiliser within the region, and like-minded leaders should be prepared to say so if they agree. One small, non-military way, to demonstrate commitment would be for the incoming Administration to enter into the Treaty of Amity and Cooperation, potentially opening the door for US participation in the East Asia Summit.
  - A strong consensus emerged during the Dialogue about the need to promote a new, clearly expressed, security guarantee for the region. The key elements of this security guarantee—informally labelled “The Bowral Doctrine” after the town in which these discussions were held—were identified as:
    - A declaration that no power in the Western Pacific should be able to intimidate another without being deterred, confronted and, if necessary, defeated by political, financial or military action.
    - All regional states should be encouraged to build their capacities for self-defence and their operational interoperability with neighbouring states.
  - Continued Australia-US military cooperation was also seen as another aspect that should continue into 2009-10 and beyond. This collaboration would build on an ongoing program of cooperation in intelligence, cyber-defence, undersea warfare, special operations and space. Reinvigorated cooperation between Australia and US Pacific Command should be a priority.
  - The Dialogue concluded that there was scope to launch a major Asia-Pacific initiative to promote energy security through a regional strategic energy conservation initiative. This multinational initiative would aim to reduce energy demand through technology transfer and awareness of energy conservation advances.
  - The Dialogue also identified scope to enhance humanitarian assistance and disaster response cooperation in the Asia-Pacific region. Recent events have shown that few regional nations are prepared to meet major disasters on their own, if only because of the difficulty of quickly marshalling all the necessary resources in affected areas. The initiative proposed here would go beyond military cooperation to include civilian agencies, so the full range of national tools can be used to cope with human, health, economic and infrastructure challenges of disasters.

- The Dialogue also concluded that there was scope for much closer regional cooperation in the field of cyber security. It is difficult to understand why any state would jeopardise their future economic prosperity by allowing rogue individuals and groups to make the internet unusable. The incentives for states to cooperate in this field were seen to be particularly strong.

In his address to the Dialogue, Prime Minister Rudd exhorted all to adopt a common resolve to “build an Asia Pacific century that does not repeat the errors of the European century”. The Kokoda Dialogue concluded that in order to achieve this goal and ensure that the Western Pacific's future is characterised by prosperity, sustainability and peace several new steps are required. And some need to be launched soon.

*This record of proceedings was prepared by a participant in the Kokoda Dialogue of 20-23 November 2008. The author thanks his fellow rapporteurs and the Dialogue Chair, Professor Babbage, for their assistance.*